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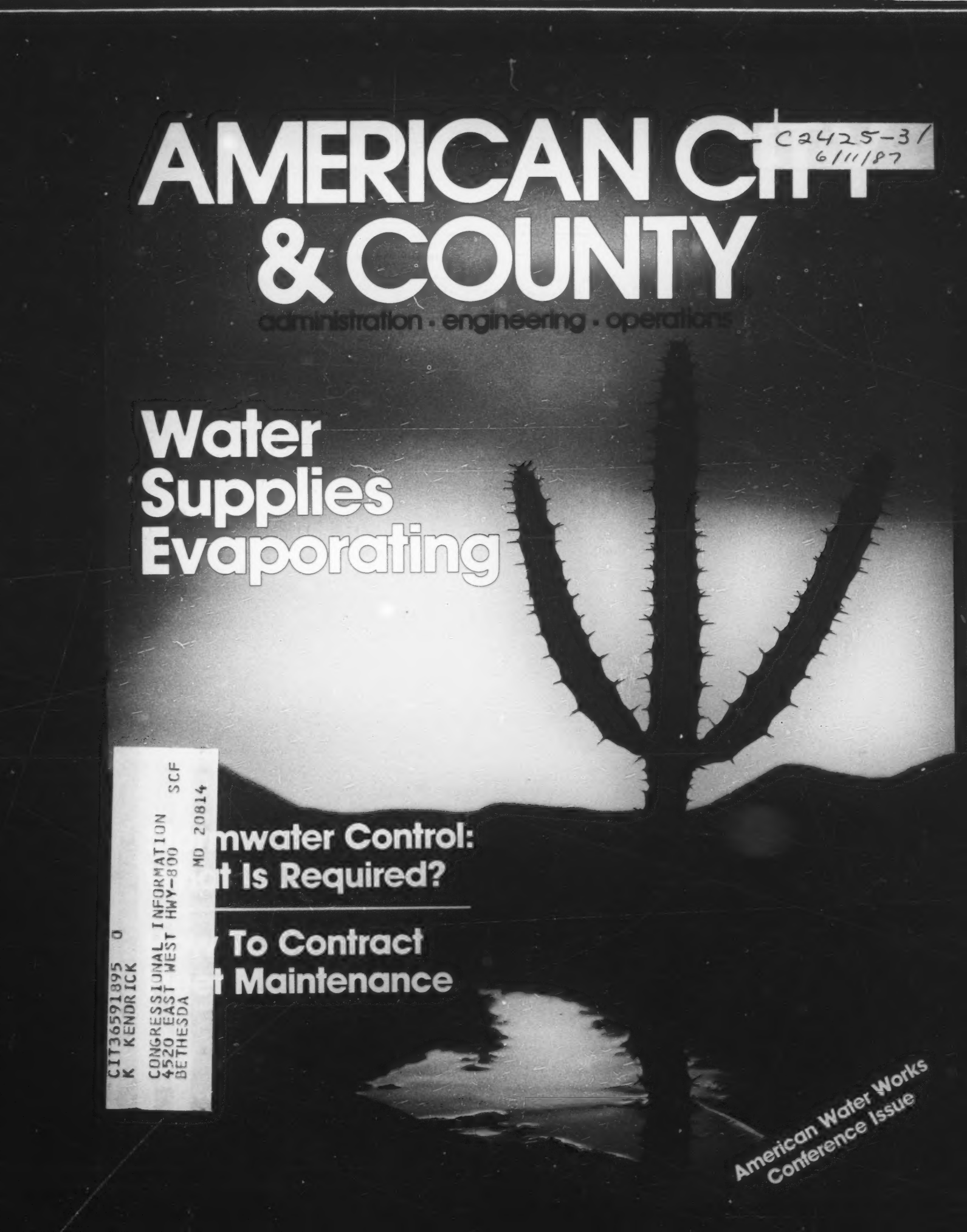
Water Supplies Evaporating



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American Water Works Conference Issue

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June 1987 Vol. 102, No. 6

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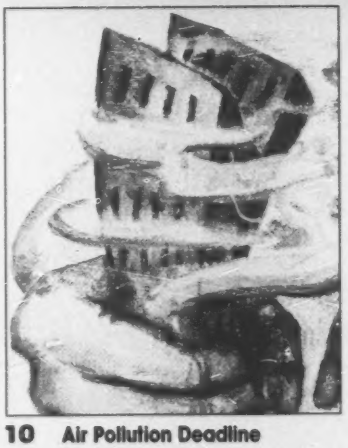

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American City & County is published monthly by Communication Channels, Inc., George E. Fowkes, Chairman of the Board; B. J. Kotsher, President; Scott Smith, Secretary; Buford Bryant, Treasurer. Editorial and advertising offices at 6255 Barfield Road, Atlanta, GA 30328. Telephone 404-256-9800. American City & County is a registered trademark of Communication Channels, Inc. © 1987 by Communication Channels, Inc. Application to mail at Second Class Postage paid at Atlanta, GA and at additional mailing offices. Subscription rates: U.S.A., 1 year $42; 2 years, $70; Canada and Mexico, 1 year, $45; Foreign, 1 year, $60; overseas air mail, $107; Single copies, $3.50. The opinions expressed by authors and contributors to American City & County are not necessarily those of the editors or publisher. Articles appearing in American City & County may not be reproduced in whole or in part without permission of the publisher. Microfilm copies of American City & County are available from Xerox University Microfilms, Ann Arbor, MI 48109. Postmaster: Please send form 3579 to Circulation Department, American City & County, 6255 Barfield Road, Atlanta, GA 30328.
ISSN 0149-337X

How to Contract Fleet Maintenance

If privatizing equipment maintenance is to be successful, the fleet manager will have to attract qualified contractors, deal with displaced employees and sell the idea to superiors.

By K. Dennis Klingelhofer and Jeff Gaber

Illustration by Alex Hueso

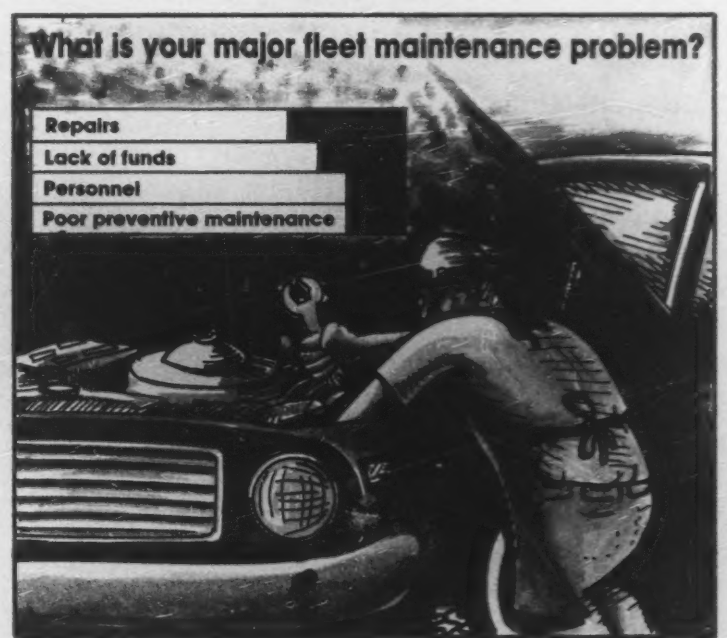
As local governments look for ways to provide services more economically and efficiently, contracting out fleet maintenance equipment is becoming increasingly common. Reasons for the increased interest include continuing budgetary constraints — for maintaining and replacing equipment that has outlived its usefulness, mounting political pressure and public interest in privatization, and increasing pressures from private contractors interested in providing fleet maintenance services.

The concept of contracting fleet maintenance is not a new idea. Some local governments have been using private contractors for the past 15 years. Others have tried contracting in the past, and for a variety of reasons — usually dissatisfaction with the contractor's performance — have elected to return to an in-house maintenance operation.

This leads to important questions: Why does the degree of success of privatization vary from one engagement to another? If contracting fleet maintenance works well for one city, why does it fail in another? And perhaps more importantly, what can the fleet manager do to be successful in a privatized effort?

A review of the successes and failures in contracting for equipment maintenance has led to the development of recommended guidelines to follow when considering contracting fleet maintenance.

One government official was heard to say, "I got rid of fleet maintenance to a private contractor so I don't have to listen to equipment users complain." Another commented, "I don't have to worry about stocking specialty parts, my contractor is responsible for that now." These statements are precursors of failed privatization efforts. Fleet managers never "get rid of" any responsibilities. In privatization, the fleet manager simply is using an alternative resource to in-house forces.



This alternative has characteristics affecting performance, just as in-house resources do. These characteristics must be appreciated as the cost/benefit of contracting for fleet maintenance is evaluated. Direct communication with various contractors to solicit their viewpoints is recommended.

The fleet manager's

Repairs and Personnel Are Top Fleet Woes

Repairs, personnel problems and a lack of funds are the leading fleet maintenance problems, according to respondents of a March survey by *American City & County*. Nearly 15 percent of all respondents say repairs are the major concern, with another 13 percent bemoaning the lack of preventive maintenance

and nearly 8 percent citing old equipment.

Personnel problems also figure prominently. For cities or counties with more than 100,000 residents, personnel is the top problem, being named by approximately 19 percent of the respondents. Pay scales were mentioned specifically. One fleet administrator from a Northeast county of more than 250,000 people says, "Attracting qualified help at the low salaries offered by our county is the biggest problem."

The general service director of a Western city with a population between 100,000 to 250,000 says adequate pay to keep good mechanics was the biggest headache. Understaffing is the major fleet maintenance problem for the public works director of a large Southeastern city, who adds that political hiring of unqualified mechanics exacerbates the problem.

Not surprisingly, lack of funds is a constant problem. Again, communities with larger populations find money particularly hard to come by. Almost 16 percent of the respondents from local governments with more than 100,000 residents name money as the top problem, whereas less than 12 percent of respondents of smaller communities cite money as the main obstacle.

Computerization of the fleet maintenance program varies widely between communities with more or less than 100,000 people. Eighty percent of survey respondents from small communities report their fleet programs are not computerized, whereas larger departments rely more heavily on computers. Slightly more than half of the respondents from cities or counties with more than 100,000 people say their programs are computerized.

The overwhelming majority say maintenance chores are performed in-house. Only 5 percent report using contract maintenance, although several communities use a combination of services.

The survey reveals a wide variation in the number of vehicles in municipal fleets. For communities with less than 100,000 residents, 23 percent have one to 15 vehicles, 17 percent have 16 to 25 vehicles, 17 percent have 26 to 50 vehicles, and another 17 percent have between 51 and 100 vehicles. The remaining 26 percent maintain more than 100 vehicles.

—John Sequerth

Fleet Sizes Vary Widely

For communities with less than 100,000 residents, a recent *American City & County* survey shows the number of vehicles in municipal fleets fluctuates greatly.

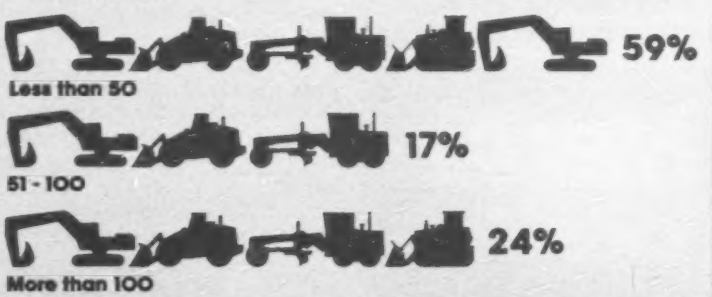


Illustration by Alice Hanes

goal is to provide equipment users with a dependable, well-maintained fleet at the lowest cost. The contractor's goal is a satisfied customer and a fair return on investment. These are not mutually exclusive goals, but it takes a lot of planning and preparation prior to signing a contract.

Goals and objectives should be set. This is an intregal part of the planning process, whether the work is done in-house or by a contractor. When considering preventive maintenance services, minimum acceptable availability rates and unscheduled repair performance, make realistic goals. Is it realistic to expect a contractor to maintain a 95-percent availability rate for street sweepers

Equipment users should be included when planning fleet contracts.

if, historically, the best the in-house staff maintained was 70 percent? Define needs and what can be afforded, communicating these needs to the contractor during the proposal process.

A contractor probably can meet any requirements if the financial award is great enough, but is it worth the cost? Since one goal in contracting is cost reduction, the performance requirements asked of the contractor should be calculated carefully.

Some fleet maintenance goals and objectives often are difficult to define, since priorities change frequently based on the needs of users. Communication between the fleet manager and the central garage operation is difficult enough; place a contractor in the system and the communication problem is compounded.

Pre-solicitation planning is crucial. Contractors need all the information possible to prepare a proposal and submit a bid. If the fleet manager has not done the homework, critical valid user needs might not be satisfied. This dissatisfaction can lead ultimately to contract disputes. Equipment users should be included when planning fleet maintenance contracts, since communication is essential to a successful maintenance operation. To redefine performance criteria in mid-contract is confusing and can lead to a poor relationship between parties.

Since contractors are being asked to bid competitively on fleet services, potential contractors should be given as

much historical information as possible. If the historical costs have been identified, the fleet manager will have a valid basis for evaluating in-house vs. contract operations. The clearer the picture given to contractors, the more competitive they can be. All contractors need to know how many vehicles are in the fleet and the condition of each piece.

Creativity needed

The final chapter of the book on privatization has yet to be written. No one has all the answers, and what succeeds for one city might fail in another. Traditional approaches to contracting, developed from procuring supplies and construction services, are not always applicable to equipment maintenance contracting.

As fleet managers move forward with privatization, several techniques will help open the door to better ideas.

Fleet managers probably will find they must be openly aggressive in soliciting responses. Traditionally, structured procurement methods tend to restrict the flow of communication between the agency and potential contractors. Soliciting the input of potential contractors early in the process is recommended. These contractors will initiate creative ideas that could help reduce contract costs and define equitable performance standards. Pre-solicitation meetings to explain the local government's goals through privatization are helpful.

Keeping an open mind about the scope of privatization is important. The department's specific needs may be best served by widening or narrowing the scope of contractor services. Options in contracting fleet maintenance services include:

- engaging a contractor to provide only repair and maintenance services, under the tight control of government inspectors and shop schedulers (the General Services Administration is letting several such contracts);
- hiring a contractor to perform maintenance, repair and basic garage services; and
- engaging a contractor to provide maintenance, repair and total fleet management services, including replacement planning, fleet data processing, specification and fuel management.

Soliciting input from potential contractors is recommended.

If contracting the maintenance of equipment fleet is to be successful, a number of potential problems will have to be overcome. These can include how to attract potential contractors, what to do with displaced employees and how to sell the idea to the city manager or elected body. Solving these problems often requires creativity by the fleet manager.

Local governments traditionally have used lump-sum or firm-fixed-price contracts for procuring services. While this type of contract provides the fleet manager with the exact cost of contracting for maintenance at the beginning of the contract period, it also places the greatest risk on the contractor since the contractor must assume full-cost responsibility for fleet maintenance. Generally, the result is high contract costs or a lack of bidders.

In order to encourage potential contractors to submit bids and to encourage a more competitive environment, fleet managers are looking at new types of contracts such as target-cost-incentive contracts. This type of contract provides an incentive to the contractor to manage effectively and reduce costs in order to increase fees. The goal in deciding which type of contract to use and in writing the performance specifications is not to limit the contractor's potential profit, but to ensure the equipment fleet is maintained at the desired level. This will encourage a competitive contracting environment.

The decision to contract equipment maintenance often means a reduction in the in-house work force. This is one of the most controversial aspects of privatization, stopping the contracting momentum in many cities. Fleet managers have dealt with this issue in a variety of ways. They have transferred displaced employees to other governmental agencies, reduced the in-house force through attrition and required the contractor to hire displaced employees.

Equipment Rentals Expected To Increase

Changing conditions in the construction industry will force construction equipment users to take a harder look at equipment rentals. Four major trends will influence the shift: smaller projects, tax law changes, increased contractor sophistication and increased competition in the rental industry.

One primary factor creating an increased demand for rental equipment is a change in the types of construction jobs available. "Many of the construction jobs in the coming decade will continue to consist of repairing this country's infrastructure," says Marv Zoromski, manager of JI Case's major and national construction equipment accounts. "As the trend toward these smaller and shorter jobs continues, contractors will reduce the size of their owned fleets and depend increasingly on rental equipment.

"Not only will this ensure they have the proper equipment to complete a job, it will also ensure they will not have idle equipment in between projects."

He says smaller equipment will remain a popular choice for contractors, but as contractors cut the size of their owned fleets, they also may begin to look for larger rental equipment.

Changes in the tax laws are expected to affect the rental equipment industry. "Many rental yard owners have viewed the shift away from depreciation write-offs in a negative light," Zoromski says. "Many rental yard owners are beginning to see the negative effects of tax law changes may well be overcome by a significant increase in business for rental yard operators."

Another factor affecting the rental market is the increasing financial sophistication of contractors. More contractors are viewing equipment rental as an effective tool for controlling cash flow in their operations. Zoromski says contractors realize if a piece of equipment is sitting idle between construction projects, they may be better off financially renting the equipment as needed. According to a Hertz Equipment Rental study, renting is the most cost-efficient option unless the customer is using equipment more than 65 percent of the time. Above 65 percent, customers should consider ownership.

Zoromski says increased competition in the rental industry has pushed rental prices down and increased equipment availability. The result, he says, is a wide range of affordable equipment, allowing more contractors to bid on projects. □

Finally, regardless of how attractive privatization can be financially, the idea will have to be "sold" to others.

Monitoring results

After the contracting has been accomplished, monitoring and evaluating the results critically is important. This evaluation must cover several areas, including maintenance quality, responsiveness, cost/benefit vs. in-house forces, and the effects on management workload. If fleet managers have a difficult time evaluating factors currently performed by in-house mechanics, evaluating contractor-performed results will be even more difficult.

In addition to evaluating the success of the contracting effort from the fleet manager's perspective, equipment users also should evaluate the contractor's performance. If equipment users were involved during the planning phase, their needs already should have been stated in measurable terms. Their evaluation should be based on the needs they stated prior to the start of work and included in the contract.

The experience of other fleet managers has demonstrated there are potentially significant rewards to be reaped by governments using privatized equipment maintenance functions. Success, however, does not come any easier when work is performed by a contractor than it does when work is performed by government workers. The fleet manager who wishes to use private contractors must be prepared to commit ample resources to manage the privatization effort to a successful end. □

K. Dennis Klingelhofer is regional director for Roy Jorgensen Associates Inc., Gaithersburg, Md., and Jeff Gaber formerly was Florida manager for the firm.

Paris To Host Intermat '88

Intermat '88, the International Equipment and Techniques for Civil Engineering and Construction Exhibition, has been scheduled for May 16-21, 1988, in Paris, France. The every-third-year show will feature more than 200,000 square meters of exhibition and demonstration space for public works and construction equipment.

Local government officials from the United States and U.S. companies interested in exhibiting at the show may obtain further information by writing to: Intermat '88, c/o American City & County, 6255 Barfield Road, Atlanta, Ga. 30328. □

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MUNICIPAL COST INDEXES

The **Municipal Cost Index** for June continued its steady climb, rising to 344.6. The **Construction Cost Index** rose slightly to 380.8, while the **Consumer Price Index** increased by more than a point to 335.9. The **Producer Price Index** rose only .1 to 302.8.

Energy products showed the largest declines in this month's marketbasket, with prices for diesel fuel, fuel oil no. 2, natural gas and residual fuel falling. Although liquefied petroleum (LP) gas fell more than 21 percent from last year, it gained nearly 6 percent over last month.

— Compiled by John Sequerth

THIS MONTH'S MARKETBASKET

	Current Index	Percent Change From: Last Month	Last Year
Air Conditioners	149.5	−.1	.5
Apparel	185.8	.1	.8
Asphalt Roofing	366.4	−.9	−9.3
Books	144.1	.2	.6
Chemicals, Industrial	327.8	1.4	−2.6
Coal	533.1	−.4	−1.8
Concrete Products	324.6	−.2	−.1
Construction Machinery	372.1	.2	1.8
Diesel Fuel	396.2	−5.9	.4
Electric Components	201.7	−.8	.7
Electric Lamps	349.9	.6	1.1
Electric Power	442.0	−.3	−3.5
Engines, I.C.	359.2	−.4	2.8
Fans, Blowers	372.4	.7	1.2
Fertilizers, Mixed	254.3	1.1	.6
Floor Coverings	196.7	−.5	.8
Flow Instruments	239.7	.4	2.3
Footwear	265.5	.6	1.5
Foundry Products	362.8	−.1	−.5
Fuel Oil No. 2	415.5	−6.9	−6.9
Furniture	323.8	.2	3.0
Gasoline	368.5	−.1	−.6
Generator Sets	353.6	.2	1.0
Glass	234.6	.1	2.2
Glass Containers	404.2	−.1	2.5
Gypsum Products	327.3	−4.1	−7.0
Hardware	305.5	0	−.1
Heating Equipment	274.4	1.1	3.6
HVAC Controls	132.2	.4	6.2
LP Gas	359.6	5.7	−21.2
Lubricants	346.2	−1.7	−9.3
Lumber	327.1	1.0	6.9
Metal Fabrications	318.5	.6	1.0
Millwork	324.0	.7	3.4
Motor Vehicle Parts	369.5	2.7	3.2
Mowers	264.3	.3	.5
Natural Gas	1,069.6	−1.5	−20.4
Office Machines	157.3	.3	2.4
Paint	316.8	.8	−4.3
Paper	312.9	−1.6	3.8
Passenger Cars	234.9	−1.3	2.8
Plumbing Fixtures	331.7	0	2.8
Plywood	240.2	1.3	2.8
Portland Cement	345.8	−1.5	−4.1
Residual Fuel	591.8	−5.3	−8.6
Sand, Gravel	326.3	.4	3.2
Sanitary Papers	385.6	.3	1.1
Soaps, Detergents	275.0	−.1	.5
Sporting Goods	208.8	.1	2.0
Steel Mill Products	353.5	.1	2.1
Struc. Clay Products	312.8	.2	2.7
Switchgear	291.0	1.3	2.5
Tires, Tubes	231.3	−.3	−2.0
Transformers	237.0	.2	1.2
Trucks	345.8	0	1.0
Valves	108.1	.1	1.8
Wire, Cable	205.3	.2	−.7
Wiring Devices	379.6	.1	.8

At-A-Glance Changes

MUNICIPAL COST INDEX

Last Year 336.3 — Last Month 343.9 — This Month 344.6

Percent Change From Last: Month .2 Year 2.5

CONSTRUCTION COST INDEX

Last Year 369.7 — Last Month 380.4 — This Month 380.8

Percent Change From Last: Month .1 Year 3.0

CONSUMER PRICE INDEX (BLS)

Last Year 326.0 — Last Month 334.4 — This Month 335.9

Percent Change Fro n Last: Month .44 Year 3.0

PRODUCER PRICE INDEX (BLS)

Last Year 300.3 — Last Month 302.7 — This Month 302.8

Percent Change From Last: Month .03 Year .83

These figures are calculated on a base year of 1967.

QUARTERLY MUNICIPAL TRENDS

	Current Level	Percent Change From: Last Qtr.	Last Year
Receipts	629.1B	2.9	7.7
Federal Grants	97.7B	9.5	−3.8
Durable Purchases	23.6B	3.1	9.8
Consumables	37.6B	2.7	−6.0
Services	387.4B	2.3	8.0
Structures	309.8B	2.3	7.6
Salaries, Wages	64.8B	−2.4	18.7
Surplus	64.0B	8.7	7.6
Employment	14.049M	.36	2.4